

FISCAL NOTE

Bill #: HB0393

Title: Local tax authority for property tax relief

Primary

Sponsor: Daniel Fuchs

Status: As introduced/revised

| | | | |
|-------------------|------|-----------------------------|------|
| Sponsor signature | Date | Dave Lewis, Budget Director | Date |
|-------------------|------|-----------------------------|------|

Fiscal Summary

| | <u>FY2000 Difference</u> | <u>FY2001 Difference</u> |
|--|-------------------------------------|-------------------------------------|
| Expenditures: | | |
| General Fund | \$291,000 | \$13,000 |
| State Special Revenue | | \$104,347 |
| Revenue: | | |
| General Fund | 0 | 0 |
| State Special Revenue | | \$104,347 |
| Net Impact on General Fund Balance: | (\$291,000) | (\$13,000) |

| | | | | | |
|-------------------|------------------|----------------------------------|-------------------|------------------|-------------------------------|
| <u>Yes</u> | <u>No</u> | | <u>Yes</u> | <u>No</u> | |
| X | | Significant Local Gov. Impact | X | | Technical Concerns |
| | X | Included in the Executive Budget | | X | Significant Long-Term Impacts |

Fiscal Analysis

ASSUMPTIONS:

1. This act is effective October 1, 1999; local governments would submit the local option tax option to the electorate gradually, over a number of years, but in no case would any local option income taxes be imposed until calendar year 2000.
2. The Department of Revenue's (DOR) workload would gradually increase as more local option income taxes were accepted and imposed. The first time period for data entry and customer service would be January through June 2001.

(continued)

3. DOR's current income tax computer program, with significant upgrades to the system, could manage this tax. Programming and upgrading costs, as well as forms development, would be funded by the general fund. The design of returns and instruction packets will require 0.5 FTE.
4. DOR can retain up to 1% of taxes collected in each jurisdiction to administer (data entry into the system, process withholding, audit returns, answer additional phone calls) the local option income tax.
5. With a potential to have approximately 184 local governments to track (56 counties and 128 municipalities), full implementation of local option individual income tax would mean 230,000 returns.
6. By FY 2001, one fourth of local governments pass local option income taxes.
7. Based on the DOR's current experience with individual income tax, 35% of the returns require some type of additional processing (refunds, error corrections, etc.).
8. An auditor can process 25 returns per hour.
9. There will be 250 additional keystrokes per local income tax return, for a FY 2001 total of 14,375,000 keystrokes at \$.0038 per keystroke. (\$54,625 for data entry)
10. There will be an increase of 20,000 taxpayer inquiries (additional phone calls) in FY 2001, and a decrease to 10,000 additional calls in future fiscal years (.50 FTE in FY 2001).

FISCAL IMPACT:

| | <u>FY2000 Difference</u> | <u>FY2001 Difference</u> |
|-----|------------------------------|------------------------------|
| FTE | 0 | 2.0 |

Expenditures:

| | | |
|------------------------------------|----------------|-----------|
| Personal Services | | 50,606 |
| Operating Expenses | | 12,116 |
| Data Entry | | 54,625 |
| Information Technology-development | <u>291,000</u> | <u>0</u> |
| TOTAL | \$291,000 | \$117,347 |

Funding:

| | | |
|----------------------------|-----------|----------------|
| General Fund (01) | 291,000 | 13,000 |
| State Special Revenue (02) | | <u>104,347</u> |
| TOTAL | \$291,000 | \$117,347 |

Revenues:

| | | |
|----------------------------|--|-----------|
| General Fund (01) | | |
| State Special Revenue (02) | | \$104,347 |

Net Impact to Fund Balance (Revenue minus Expenditure):

| | | |
|----------------------------|-------------|------------|
| General Fund (01) | (\$291,000) | (\$13,000) |
| State Special Revenue (02) | | 0 |

(continued)

LONG-RANGE IMPACTS:

As local option income taxes become more prevalent, DOR would experience ‘present law’ adjustments to its state special revenue budget.

TECHNICAL NOTES:

1. Because the tax may be imposed on persons residing in a locality or deriving money from an activity in a locality, the complexity of situs and resident/nonresident taxation will have to be applied.
2. The bill does not specify what percentage of state tax liability that a locality may impose.
3. It would be difficult to administer a local option income tax from any date other than the start of a tax (calendar) year. For this reason DOR suggests an amendment which would indicate that any locality electing a local option income tax that is a percentage of state tax liability cannot begin receiving a percentage of the state income tax until January 1 on the year after the electorate in a locality has approved such a tax.
4. It is uncertain how much of the total administrative expense will be covered by the 1% administrative allowance provided for in the bill. Because the bill provides no guidelines concerning what percent of the state income tax liability a local government may impose, and because there is no way of knowing how many local governments would choose to levy a local income tax, administrative fee revenues would be uncertain. It is feasible that local governments with a small population could elect to have the local income tax, and for these smaller populated local governments the costs of collecting the tax by DOR could exceed the 1% administrative allowance.